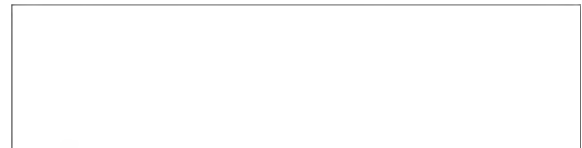


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Memorandum for: DDI

This memo was prepared at the request of Ty Cobb of the NSC staff for the Washington visit of Grand Duke Jean. Mr. Cobb would like to receive the memo by 1 November.



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Chief, Western Europe Division

25 October 1984



Director,

E U R A

Office of European Analysis
Directorate of Intelligence

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Central Intelligence Agency



Washington, D.C. 20505

29 October 1984

MEMORANDUM

Luxembourg: The Imperative of Western Unity

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Overview

1. Luxembourg's history and small size have led its leaders, for reasons of expediency and principle, to emphasize the importance of alliances and good relations; Luxembourg takes pride in its role as a charter member of both NATO and the EC. Luxembourgers are disturbed at actions that force them to choose between friendship with Washington and solidarity with their European partners, but they will usually side with their neighbors.

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A Diverse Cultural Legacy

2. Luxembourg has an eclectic culture that encompasses German, French, and Dutch aspects. The fact that several of Western Europe's greatest cultural traditions meet in the Grand Duchy continues to play a role in how Luxembourgers view the world.

- In the Grand Duchy's major newspaper, one can find stories in German, French, and the Luxembourgish dialect on the same page.
- While conscious of their place as a meeting point for several nations, Luxembourgers also emphasize their distinct national character.

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The Historical Legacy

3. Luxembourgers are proud of an impressive dynastic tradition that dates from the early Middle Ages; in the 14th century the House of Luxembourg even provided a Holy Roman Emperor. Throughout its history, Luxembourg's strategic location has made it subject to the ambitions of its larger neighbors. To maintain independence, the Grand Duchy has had to rely on balances of power and a willingness on the part of larger countries to respect Luxembourg's sovereignty.

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- Luxembourg achieved autonomy in the post-Napoleonic settlement of 1815, when the Great Powers permitted the King of the Netherlands to become Grand Duke of Luxembourg. The installation of the Dutch House of Orange in Luxembourg (as well as Belgium) as a buffer against renewed French ambitions demonstrates the Grand Duchy's strategic importance. Belgium broke away from the Netherlands in 1830, but the Dutch monarch retained the Grand Ducal title in Luxembourg until 1890.
- During the decades when Luxembourg was linked to the Netherlands, it remained the object of Great Power rivalry. Only the competing ambitions of Prussia prevented France from swallowing Luxembourg in 1867. Following the diplomatic crisis of that year, Europe's major powers agreed to respect the Grand Duchy's autonomy and neutrality. Luxembourg usually dates its independence from 1867.
- Events in this century followed past patterns. In both 1914 and 1940 the Germans invaded and occupied Luxembourg on their way to France. While the occupations were mild by German standards, the transportation of forced labor to Germany and execution of those resisting the occupier left a powerful memory on the small country.
- The older generation still harbors some bitterness toward the Germans. Most Luxembourgers, for example, shop in Germany, but make it a point to vacation only in France. In 1982, a proposal to tie the Luxembourg franc (known as the Flux) to the DM raised an outcry about "not forgetting 1914 and 1940." [REDACTED]

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The Importance of the Atlantic Partnership

4. The legacy of the two World Wars has been the major factor in determining national attitudes toward foreign policy. Luxembourgers, more than other West Europeans, know that when their powerful neighbors are at odds the Grand Duchy faces disaster. Similarly, Luxembourgers cherish the memory of the American liberation of their country with more fervor than the French or Belgians, and have not forgotten that their independence depends on the US presence in Europe. Luxembourg has every reason to avoid arguments between the US and the European allies. Officials have expressed fears that the Atlantic partners are drifting apart, and the Grand Duchy does all it can to maintain harmony.

- The US cemetery and the Patton memorial are well tended and ceremonies honoring the Liberation are attended by the Grand Duchy's leading politicians. This year holds special significance as the 40th anniversary of the Battle of the Bulge and the expulsion of the Germans from Luxembourg territory.
- Grand Duke Jean served in the British Army during the war and holds special memories of the Liberation. He has taken the lead in promoting remembrance of the US role.

- The World Wars also left as a political legacy a powerful desire for European unity. The Benelux Economic Union which came into being in 1948 had its origins in wartime negotiations between the Belgian, Dutch, and Luxembourg governments in exile.
- Luxembourgers are also proud of their role as one of the founding members of NATO and the EC, and the Grand Duchy is host to numerous Europe-wide organizations. Despite the Grand Duchy's small size, they point out the important role long-time Foreign Minister Joseph Bech had in setting up both institutions. []

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Economic Problems

5. Luxembourg is in a period of retrenchment, but the Grand Duchy appears to be weathering its problems better than some of its neighbors. The recession has encouraged the government to embark on a restructuring plan for the steel industry, which in 1983 accounted for about 15 percent of GDP and over half of exports. At the same time, the Grand Duchy is making efforts to lessen dependence on the steel industry by encouraging both the banking and service sectors.

- The "social partnership" between government, business, and labor that has characterized postwar Luxembourg has been shaken by the world recession. The past year has seen uncharacteristic demonstrations by steel workers and the first-ever strike by bank employees.
- The presence of "guest workers" has not become an issue in Luxembourg, in contrast to France and French-speaking Belgium, but if unemployment worsens the foreign labor issue could become more prominent. []

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International Economic Interests

6. Luxembourg has played an important role as a trading center since the Middle Ages and Luxembourgers continue to be skeptical of measures that limit trade. The Grand Duchy is heavily dependent on trade with West Germany and its Benelux partners. In keeping with its traditional support for European unity, Luxembourg encourages increased intra-European trade.

- Luxembourg also encourages investment of all sorts and is proud of its role as an international banking center. Luxembourg's tradition of "open borders" has caused problems on the technology transfer front, especially concerning illicit Libyan aircraft purchases.
- Luxembourg's formal ties to Belgium on the economic level, begun in 1921, are extremely close, but some Luxembourgers worry that Belgian problems are a drag on the Grand Duchy's economy. A unilateral Belgian devaluation of the franc in 1982 sparked examination of loosening the connection with Brussels, but action in the near future is unlikely. []

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